State Profile

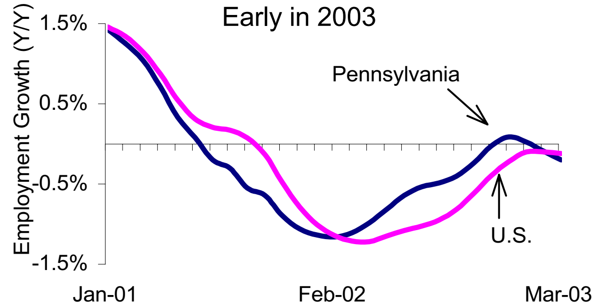
Summer 2003

Pennsylvania

Pennsylvania's rate of job growth closely tracks the national economy. Renewed job losses in Pittsburgh and elsewhere, primarily in manufacturing, are prolonging the state's economic weakness.

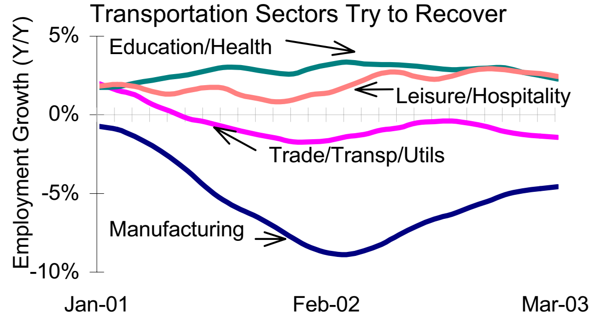
- The labor market in **Pennsylvania** recovered throughout 2002 along with the nation, but stalled in first quarter 2003 (chart 1). Deterioration in the **Scranton** and **Pittsburgh** job markets was the largest factor in the state's recent employment dip. Additionally, **Philadelphia** and **Allentown** lost comparatively large numbers of jobs in first quarter 2003.
- Pennsylvania's manufacturing sector has experienced negative job growth since fourth quarter 2000. Job losses reached an annual rate of over 9 percent in first quarter 2002 (chart 2), with the rate of decline slowing more recently. Of the manufacturing sub-sectors, the Computer and Electronic Products industries experienced the greatest employment declines. Continuing growth in the Education and Health Services and Leisure and Hospitality sectors partially offset the losses in manufacturing.
- The slowdown in the manufacturing sector has negatively affected downstream industries such as Trade and Transportation. Statewide, employment in air transportation fell by over 10 percent in first quarter 2003, and the weakness in that industry shows no sign of abating. US Airways, which emerged from bankruptcy in March 2003, announced plans to lay off roughly 900 workers at the Pittsburgh, Philadelphia and Charlotte, N.C. hubs.
- Statewide economic weakness has pushed the share of mortgage loans in foreclosure in Pennsylvania to a twenty-year high at year-end 2002. Not only has the foreclosure inventory risen to new heights, the difference between the rate in Pennsylvania and the U.S. rate has increased to a twenty-year high as well (chart 3). This rising foreclosure trend suggests that in spite of low interest rates and home equity growth, job losses are adversely affecting consumers in some parts of the state.
- Office market conditions in Philadelphia and Pittsburgh appear to be diverging. In first quarter 2003, the office vacancy rate in Philadelphia fell to 15.5 percent compared with a 16.9 percent vacancy rate for the nation. This marked the third consecutive quarterly decline for the area. The office vacancy rate in Pittsburgh, on the other hand, rose to 18 percent in first quarter 2003, up from 16.8 percent in fourth quarter 2002. This is the third consecutive quarterly increase in Pittsburgh. Weakness in Pittsburgh's

Chart 1: After Outperforming the Nation, Pennsylvania's Job Recovery Faltered Early in 2003



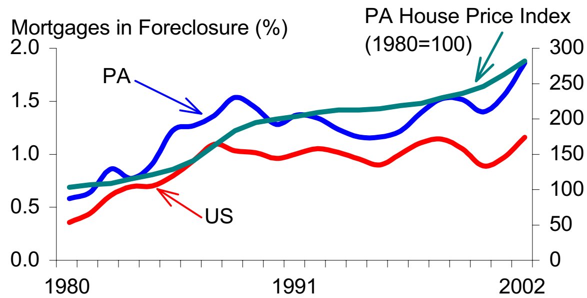
Source: Bureau of Labor Statistics. Data are three-month moving averages.

Chart 2: Education, Health and Hospitality Sectors Provide Stability As Manufacturing, Trade and Transportation Sectors Try to Recover



Source: Bureau of Labor Statistics. Data are three-month moving averages.

Chart 3: Pennsylvania's Mortgage Foreclosures and House Price Index Are Moving in the Same Direction



Source: Office of Federal Housing Enterprise Oversight. Mortgage Bankers Association. Not Seasonally Adjusted.

office market is consistent with an economy that is losing jobs, especially in the service-providing industries.

After increasing steadily since midyear 2001, net interest margins (NIMs) decreased among Pennsylvania's insured institutions in the second half 2002, and may face continued pressure in the current low interest rate environment.[1]

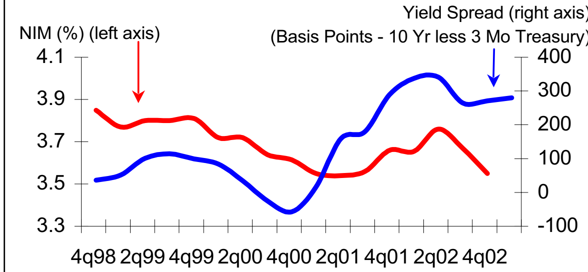
- Following four consecutive quarters of improvement, the median NIM modestly declined from 3.66 percent in third quarter 2002 to 3.54 percent in the fourth quarter (chart 4). Reflecting falling intermediate and long-term market interest rates, asset yields declined, while funding costs stabilized as deposit costs neared floors.
- The current low interest rate environment poses challenges to bank management. NIMs may be further pressured as the yield curve flattened slightly in the first quarter 2003. Because deposit costs are near floor levels, insured institutions may not see as much benefit from potential further declines in short-term rates as with prior rate cuts.
- Low long-term interest rates have contributed to record refinancing levels nationally as consumers have locked in long-term, fixed-rate mortgage loans. Asset maturities have remained long, while liability maturities have remained short.
- The median ratio of long-term assets-to-earning assets among insured banks headquartered in Pennsylvania remains well above national levels (chart 5). A large number of residential lenders in Pennsylvania coupled with more widespread use of long-term mortgage products in the Northeast contributed to the higher ratio. Insured institutions with high concentrations of long-term assets may face margin compression if interest rates rise, thereby heightening the importance of proper interest rate risk management practices.

Credit quality among insured institutions headquartered in Pennsylvania has remained favorable during this economic downturn. However, the state's median commercial real estate (CRE) loan delinquency rate has increased and now exceeds the nation.

- Median past-due loan ratios among Pennsylvania's insured institutions remains lower than those of the nation across loan categories, except for CRE loans (chart 6). However, CRE loan delinquency rates remain well below levels of a decade ago on average. Furthermore, CRE loan exposure among insured institutions in Pennsylvania is below the national average. The median ratio of CRE loans-to-capital is 134 percent among insured institutions in Pennsylvania, compared with 186 percent for the nation.
- Nevertheless, as credit quality typically lags the business cycle, CRE loan delinquency levels may increase as the economic recovery lingers, particularly in areas that have continued job losses.

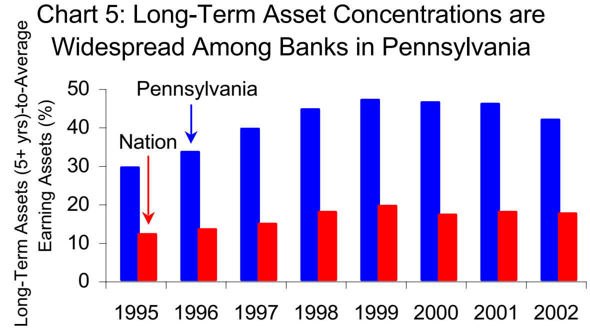
[1] Data are as of December 31, 2002, unless otherwise noted.

Chart 4: After Steadily Increasing Over the Past Year, NIMs Decline in the Second Half 2002



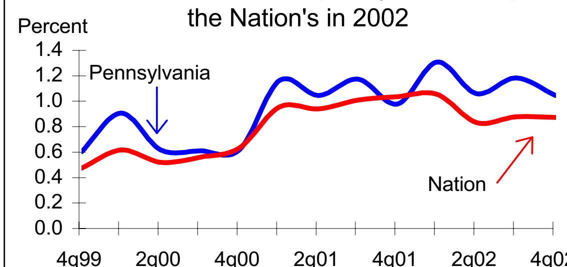
Note: Excludes institutions less than three years old. Median data displayed. NIM figures are through 4q02. Yield Spread data are through 1q03. Source: Bank and Thrift Call Reports, Federal Reserve Board.

Chart 5: Long-Term Asset Concentrations are Widespread Among Banks in Pennsylvania



Note: Excludes credit card and agricultural banks, thrifts, and banks less than three years old. Median data displayed. Data are as of December 31st. Source: Bank Call Reports.

Chart 6: CRE Loan Delinquency Rates Surpass the Nation's in 2002



CRE loans are construction, multifamily, and nonresidential real estate loans. Two-quarter moving average of median past due ratio. Includes loans 30 days or more past due. Excludes agricultural and credit card banks and banks less than three years old. Source: Bank and Thrift Call Reports.

Pennsylvania at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	283	294	303	309	313
Total Assets (in thousands)	285,460,744	273,579,883	265,328,685	262,303,075	259,130,253
New Institutions (# < 3 years)	10	19	16	16	8
New Institutions (# < 9 years)	31	30	26	24	17

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.99	8.98	9.34	9.27	9.64

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.73%	1.69%	1.61%	1.52%	1.86%
Past-Due and Nonaccrual >= 5%	26	28	23	21	23
ALLL/Total Loans (median %)	1.12%	1.06%	1.06%	1.05%	1.08%
ALLL/Noncurrent Loans (median multiple)	1.39	1.41	1.60	1.62	1.45
Net Loan Losses/Loans (aggregate)	0.46%	0.83%	0.25%	0.23%	0.41%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	22	24	20	28	15
Percent Unprofitable	7.77%	8.16%	6.60%	9.06%	4.79%
Return on Assets (median %)	0.92	0.84	0.92	0.95	1.01
25th Percentile	0.61	0.52	0.61	0.67	0.70
Net Interest Margin (median %)	3.63%	3.52%	3.66%	3.75%	3.88%
Yield on Earning Assets (median)	6.42%	7.30%	7.68%	7.41%	7.65%
Cost of Funding Earning Assets (median)	2.83%	3.81%	4.04%	3.70%	3.83%
Provisions to Avg. Assets (median)	0.12%	0.10%	0.09%	0.10%	0.10%
Noninterest Income to Avg. Assets (median)	0.48%	0.47%	0.43%	0.42%	0.40%
Overhead to Avg. Assets (median)	2.54%	2.53%	2.54%	2.60%	2.63%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	76.89%	79.89%	83.44%	81.97%	78.44%
Loans to Assets (median %)	60.08%	64.14%	64.91%	65.26%	62.95%
Brokered Deposits (# of Institutions)	37	32	29	28	22
Bro. Deps./Assets (median for above inst.)	2.07%	2.11%	2.00%	2.66%	1.73%
Noncore Funding to Assets (median)	17.71%	17.08%	16.76%	16.73%	13.10%
Core Funding to Assets (median)	69.79%	70.19%	70.56%	71.78%	74.75%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	65	67	66	66	62
National	80	82	90	94	103
State Member	28	31	31	33	32
S&L	33	34	35	37	39
Savings Bank	26	29	32	31	31
Mutually Insured	51	51	49	48	46

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Philadelphia PA-NJ PMSA	82	54,279,190	28.98%	19.01%
No MSA	66	28,753,974	23.32%	10.07%
Pittsburgh PA	45	118,313,636	15.90%	41.45%
Harrisburg-Lebanon-Carlisle PA	19	10,958,949	6.71%	3.84%
Scranton—Wilkes-Barre—Hazelton PA	15	5,216,856	5.30%	1.83%
Allentown-Bethlehem-Easton PA-NJ	15	5,854,705	5.30%	2.05%
Lancaster PA	9	8,750,514	3.18%	3.07%
Johnstown PA	8	2,225,990	2.83%	0.78%
Reading City PA	5	43,053,913	1.77%	15.08%
York PA	4	1,079,780	1.41%	0.38%
Williamsport PA	4	1,043,325	1.41%	0.37%
Altoona PA	4	593,072	1.41%	0.21%
Sharon PA	3	4,548,564	1.06%	1.59%
Erie PA	3	608,733	1.06%	0.21%
State College PA	1	179,543	0.35%	0.06%